

SPECIFIC INSTRUCTIONS

The Occupational License Return has been designed to accommodate the filing needs of individuals, sole proprietors, partnerships and corporations. Complete only those items that apply to your operation.

- A. Schedule C, E, or F – Individuals receiving income from operation of a trade, business or profession, complete the column marked INDIVIDUAL. Lines 1 through 31 as applicable.
- B. Form 1065 – Partnerships complete the column marked PARTNERSHIP. Lines 6 through 31 as applicable.
- C. Form 1120, 1120A, 1120S – Corporations complete the column marked CORPORATION. Lines 7 through 31 as applicable.

READ THE INSTRUCTIONS FOR THE ITEMS THAT APPLY TO YOUR OPERATION BEFORE COMPLETING FORM OL-3.

Line 1: Enter the net profit or loss as shown on Federal Schedule C or the amount or other income per Form 1040. (Attach a copy of page 1 and 2 of Schedule C, Form 1040, or its equivalent.)

Line 2: Enter 100% of the short term capital gains and long term capital gains carried over from Federal Form 4797 or Federal Form 6252 (installment sales) to Federal Schedule D representing gain from the sale of property used in your trade or business. (Attach a copy of Form 4797 or Form 6252.)

Line 3: Enter the total rental income or loss per Federal Schedule E. (Attach a copy of Federal Schedule E or its equivalent.)

Line 4: Enter the net farm profit or loss per Federal Schedule F. (Attach a copy of Federal Schedule F or its equivalent.) NOTE: Farm losses should be reported only if the farm is located in Covington. Farm losses for farms located in Covington are subject to the hobby loss rules (U.S. Department of Treasury Regulations 1.183.1(c) and 1.183.2(b)).

Line 5: Enter the net gain or (loss) from the sale of property used in your trade or business per Federal Form 4797. (Attach a copy of Form 4797 or its equivalent.)

Line 6: Enter the ordinary income or loss per Federal Form 1065. (Attach a copy of Federal Form 1065, Pages 1, 2 and 3 and Rental Schedule(s) if applicable, or its equivalent.)

Line 7: Enter the taxable income after special deductions and net operating loss per federal form 1120, 1120A or the Ordinary Income or (loss) per Federal form 1120S. (Attach a copy of Federal Form 1120, 1120A, 1120S, Pages 1, 2 and 3 and rental schedule(s) if applicable, or its equivalent.)

Line 8: If a deduction is taken for occupational taxes by an individual on Schedule C, E, F, by a partnership on Form 1065, or by a corporation on Form 1120S, then the amount of those occupational taxes should be inserted on Line 8. If a deduction is taken on Federal Form 1120 for occupational taxes or state taxes based upon income, then the amount of those taxes should be inserted on Line 8.

Line 9: The following income items which are allocated to the partners or shareholders are not included as income on Federal Form 1065 or 1120S and thus must be added to income on Line 9.

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|---|---|
| * Net income from rental real estate activities | * Net short-term capital gain |
| * Net income from other rental activities | * Net long-term capital gain |
| * Portfolio income | * Other portfolio income |
| * Interest income | * Guaranteed payments to partners |
| * Dividend income | * Net gain under Section 1231 (other than due to casualty or theft) |
| * Royalty income | |

Enter total of these items on Line 9 (Attach a copy of Schedule K or its equivalent and rental schedules if applicable.)

Line 10: If a deduction is taken on Federal Form 1120 for a net operating loss, then the amount of the net operating loss should be reported on Line 10.

Line 11: Add Lines 1 through 10 as applicable. Enter total on Line 11.

Line 12: The following items which are allocated to the partners or shareholders are not included as losses or expenses on Federal Form 1065 or Form 1120S and are allowed as deductions for occupational tax purposes on Line 12.

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|---|---|
| * Net loss from rental real estate activities | * Net loss under Section 1231 (other than due to casualty or theft) |
| * Net loss from other rental activities | * Charitable Contributions |
| * Portfolio loss | * Expense deductions for recovery property (Section 179) |
| * Net short-term capital loss | * Deductions related to portfolio income |
| * Net long-term capital loss | |

Enter total of these items on Line 12. (Attach a copy of Schedule K or its equivalent and rental schedules if applicable.)

NOTE: Contributions to KEOGH Plans, Simplified Employee Pension Plan, and Medical Insurance Premiums on behalf of partners or shareholders are not deductible on Form OL-3.

Line 13: Follow instructions below for computing alcoholic beverage deduction and attach a copy of the computations to the tax form. Kentucky alcoholic beverage sales divided by total sales equals the alcoholic beverage percentage.

- * Individuals – Multiply the alcoholic beverage percentage by the net profit of the business engaged in the sale of alcoholic beverages as reported on Line 1.
- * Partnerships – Multiply the alcoholic beverage percentage by the net of Lines 11 and 12.
- * Corporations – Multiply the alcoholic beverage percentage by the net of Lines 11 and 12.

NOTE: A Deduction may be taken only if the Business engaged in the selling of Alcoholic Beverages has a Profit.

Line 14: Adjustments can be made on Form OL-3 if any sum is elected by the licensee as a credit against its federal income tax liability in lieu of a deduction for business expenses otherwise available to the licensee. Included in this list are the following:

- (1) If wages and salary expense is being reduced as a result of the new jobs or win credit.
- (2) If the depreciable basis of an asset was reduced by the amount of investment credit claimed, then ACRS depreciation may be taken on that basis reduced over the life of the asset.

Line 15: Taxpayers may deduct the following amounts without proof of non-unitary source: (Attach a Schedule itemizing this deduction.)

- * Foreign dividend gross-up under Section 78 of the Internal Revenue Code.
- * Income from controlled foreign corporations under subpart F, not actually received.
- * Interest earned on U.S. Obligations.

* Ordinary income from other partnerships or S corporations which is included in income on Line 6 or 7 of Form OL-3. Effective for tax years beginning on or after July 1, 1987 taxpayers may exclude rent, royalty and capital gain income (after subtracting from such income the expenses properly apportioned or allocated thereto) arising from without the United States and its territories.

Line 16: Enter the amount of professional expenses claimed by the partners on their individual Form 1040 which are related to, but not reimbursed by the partnership. (Include a schedule listing partners name(s), the type of deduction and the amount of each deduction.)

Line 17: Add Lines 12 through 16 as applicable. Enter total on Line 17.

Line 18: Subtract entry on Line 17 from entry on Line 11. Enter total on Line 18 and Line 23. The entry on Line 18 represents your "Adjusted Net Profit."

Lines 19-22: Businesses whose total gross receipts and payroll were confined solely to the City of Covington are to skip Lines 19-22. Proceed to Line 23. Businesses whose total gross receipts and payroll were not confined solely to the City of Covington must complete Line 19-22. All percentages should be carried out five decimal places. Gross figures must be used when completing Line 19 and 20.

Line 19A: "Covington Gross Receipts." Enter total gross receipts (less returns and allowances) from sales made or services performed everywhere per the Federal return.

Line 19B: "Total Gross Receipts." Enter total gross receipts (less returns and allowances) from sales made or services performed everywhere per the Federal return.

Line 19C: "Covington Receipt Percentage." Divide entry on Line 19, Column A by entry on Line 19, Column B. Enter the resulting percentage on Line 19, Column C.

Line 20A: "Covington Gross Wages." Enter total wages paid to employees for work performed within the City of Covington.

Line 20B: "Total Gross Wages." Enter total gross wages paid to employees everywhere per the Federal return.

Line 20C: "Covington Wage Percentage." Divide entry on Line 20, Column A by entry on Line 20, Column B. Enter the resulting percentage on Line 20, Column C.

Line 21C: "Total Covington Percentages." Add entry on Line 19, Column C to entry on Line 20 Column C. Enter result on Line 21, Column C.

Line 22C: "Average Percentage City of Covington." If your business has both receipts and wages, (entries on Line 19 and 20, Column B were greater than zero) then divide entry on Line 21, Column C by 2 and enter on Line 22, Column C and Line 24.

However, if the business had either (a) receipts (Line 19, Column B, greater than zero) or (b) wages (Line 20, Column B greater than zero) but not both, the entry on Line 21, Column C, should be transferred to Line 22, Column C and Line 24.

Line 23: Individuals, partnerships, and corporations enter "Adjusted Net Profit" figure from Line 18.

Line 24: Insert the percentages from Line 22. If taxpayers total business operations are in the City of Covington enter 100% on Line 24.

Line 25: Multiply percentage on Line 24 by entry on Line 23. Enter result on Line 25.

Line 26: "Occupational License Fees" – Multiply Line 25 by 2.5%.

Line 27: "Total Fees Due" – Add entry on Line 26 or \$50 whichever is greater not to exceed \$40,000.

Line 28: Enter any credit due from prepayments of tax for the tax year in Line 28.

Line 29: "Balance Fees Due" – Subtract Line 28 from Line 27. Enter result on Line 29. If Line 28 is greater than Line 27, stop here.

Line 30: Penalty and Interest charges resulting from late filing or late payment of the occupational tax should be entered on Line 30. (See General Instructions under "Penalty and Interest.")

Line 31: "Total Due" – Add Lines 29 and 30. Enter on Line 31. The amount of this line reflects the total liability for the tax year. Payment of the total tax liability including penalty and interest charges should accompany the return as filed.